

97-84042-2

Cosby, Joseph Thomas

“Dollar credits”

New York

1915

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"Dollar credits"... New York, 1915.
7 p.

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FILM SIZE: 35 mm

REDUCTION RATIO: 9:1

IMAGE PLACEMENT: IA (IIA) IB IIB

DATE FILMED: 3-6-97

INITIALS: MS

TRACKING # : 20581

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Dollar Credits

Joseph T. Cosby



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The Economies and Advantages of "Dollar Credits"

MANY radical changes in the mechanism of international finance have occurred during the past fifteen months, since the beginning of the European war. Not the least important among these changes, viewed from the standpoint of the American importer, is the evolution in the methods of financing our importations.

Our imports in the way of commodities such as hides, coffee, rubber, wool, etc., etc., run into hundreds of millions of dollars annually, and these are financed generally through the medium of commercial credits established by the purchaser in favor of the vendor of the merchandise. Commercial credits, so called, are in effect a bank guarantee to the seller that his drafts covering certain merchandise, when drawn in accordance with the conditions prescribed in the credit, will meet with due honor on presentation to the accepting bank named in the credit instrument.

In order merely to gain an idea as to the importance and volume of such transactions, it is only necessary to glance at the totals of a few of our principal imports. In the year 1914 we imported, among other commodities, the following:

Hides and skins.....	\$120,289,781.00
Coffee	110,725,392.00
Rubber	131,995,742.00
Wool (unmanufactured) .	53,190,767.00

Prior to the outbreak of the war in Europe, it is safe to assume that fully 95 per cent of the credits issued to cover these importations were passed through London in the form of Sterling credits; that is to say, credits available by drafts drawn in £ Sterling on London. Requests for the issuance of credits available by drafts drawn in U. S. Dollars on New York were extremely rare, and they were issued only in exceptional cases.

Conditions have changed materially in this respect. The Federal Reserve Act grants to National Banks the privilege of accepting drafts or bills of exchange growing out of transactions involving the importation or exportation of goods. This acceptance privilege was accorded to National Banks only a short time before the commencement of hostilities abroad, and this fact in conjunction with the resulting dislocation in the delicate machinery of international credit brought about by the war, together with the coincidental establishment of American branch banks in South America, has contributed in a large measure to bring about the use of what is known now as "Dollar Credits."

As a factor in creating the existing demand for Dollar Credits, the establishment of American branch banks abroad cannot be emphasized too strongly. Through these branch banks, a new and adequate medium for the liquidation of transactions as between the United States and certain South American countries, especially the Argentine, Brazil and Uruguay, has been placed at the disposal of our merchants. A direct channel is now open to the ebb and flow of credit transfer between the United States and the countries mentioned, and, as a natural sequence, the former disparity ex-

isting against the Dollar, as compared with £ Sterling and the principal Continental exchanges, has disappeared. The resulting equalization in the rates of exchange benefits the American merchant to the extent of relieving him of the tribute formerly paid to the indirect channels of liquidation, or, in other words, to the foreign banker.

The Dollar Credit is of capital importance to every American merchant who is interested either directly or indirectly in the importation of commodities of any character. A study of the advantages accruing from this form of credit will demonstrate the desirability of its general employment as the vehicle for financing not only our own imports but also those of other countries. Primarily, it is more economical than the Sterling or Continental Credit, for the initial commission cost of issuance is lower. Secondly, it is based on a known quantity, the Dollar, a factor of supreme importance in these days of extreme and violent fluctuations in the exchange rates, and therefore all exchange risk is eliminated from the operation as far as the importer is concerned. Maturities drawn under Dollar Credits are due and payable in Dollars on a given date, and no question arises as to what the exchange rate on London may be 90 days after acceptance of the bill.

Under existing conditions in the New York money market, and considering the present low rates of interest actually in effect, the use of Dollar Credits is proving to be particularly attractive to the American importer as the medium for financing his importations. The rate of discount in New York for prime bank acceptances is $2\frac{1}{2}\%$ @ $2\frac{1}{4}\%$ per cent per annum, and a broad, well-developed discount market now exists, with an ever-increasing demand in evidence

for this class of paper. On the other hand, the rate of discount in London for prime 90-day bills is $4\frac{1}{4}$ per cent per annum, with operations restricted in a far from normal market. A comparison of these two discount rates will show a difference in favor of New York of $2\frac{1}{2}$ @ $2\frac{1}{2}$ per cent per annum. In addition to this difference in interest, there is also a difference in the initial cost in the form of commission for issuance, as between credits available by 90-day drafts drawn on New York in Dollars and those available by 90-day drafts drawn on London in £ Sterling. This difference in commission in favor of New York will average $\frac{1}{2}$ per cent per annum, and when added to the saving in discount or interest already noted, will show a net saving on the Dollar Credit of 3 @ $3\frac{1}{8}$ per cent per annum, which accrues to the importer through the use of Dollar Credits in his operations.

Quite apart from the direct economy to the individual resulting from the use of Dollar Credits, is the broader question of the economic value accruing to the nation as a whole through the designation of the Dollar as the basis of value in our credit transactions with the rest of the world. Since 1903, when the total of our imports amounted to \$1,025,719,237, the volume of our imports has increased rapidly, and in 1914, the total imports reached the enormous sum of \$1,893,925,657. These figures cover products from all parts of the world shipped direct to our own shores, and while no nation enjoys higher international credit than the United States, yet it is a fact that in order to finance the movement of our imports we have been compelled to have recourse to indirect channels and call on foreign money centers to furnish us with the

necessary credit facilities to take care of a large part of our importations. Naturally, we have been obliged to pay for this accommodation, and the service has cost us millions of dollars annually in interest, commissions, etc.

These charges can be saved and an important economy effected, thus benefiting our commerce as a whole by the general designation of Dollars in our foreign credit transactions. The purchasing power of the Dollar in foreign markets is much greater to-day than it is in normal times because of the varying premium of from $\frac{1}{2}$ per cent to over 100 per cent which the Dollar commands at present practically throughout the world. The time is unquestionably opportune to increase the prestige of the Dollar and to standardize its use in the liquidation of our direct purchases abroad. Co-operation and concerted action on the part of our merchants to the end of generalizing the use of Dollar Credits is therefore a duty, which will bring about lasting benefit to the economic fabric of our commerce.

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